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business review

ERAL RESERVE
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ADELPHIA

SOUTHEAST ASIA — SOME GENERAL ECONOMIC PROBLEMS OF THE AREA

A new economic era may be dawning in southeast Asia. But the present unbalance in basic resources must be removed, there is a need for trained personnel, and the masses must become imbued with a keen desire for economic progress.

A NOTE ON CONSUMER SPENDING ON SERVICES

Total consumer spending has changed little since the peak in 1953. But changes within have been significant, and require explanation.

CURRENT TRENDS

Department store sales in this District are well maintained.

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SOUTHEAST ASIA

*Some General Economic Problems of the Area**

The people of southeast Asia are becoming restive. They want a higher standard of living; they want freedom; they want peace at home and abroad; and those who have gained it want to retain their independence as sovereign nations. With the power of applied science reaching out to this area, a new economic era may be dawning.

The free countries of the area, such as Burma, India, Pakistan, Indonesia, and Thailand, have much in common despite significant differences among them. Most of these countries have recently gained their independence after long periods of colonial rule; they have established a democratic form of government, the spirit of nationalism is quite strong, and agriculture is the principal method of making a living.

This analysis deals only with some of the common economic problems of the area and what these countries are attempting to do about them. It does not deal with conditions or programs in a single country, although admittedly differences do exist. Three broad questions will be dealt with:

1. Do these countries have sufficient quantities as well as the proper combination of the essential resources to permit a substantial increase in production and the standard of living?
2. What programs, if any, are planned or are now under way to lift the standard of living?
3. What are the principal factors that will determine the success of these programs?

RESOURCES ARE UNBALANCED

The four ingredients which mainly determine the total amount of goods and services produced are men, land and raw materials, capital, and management. The amount, quality, and proportions in which these are combined largely determine the standard of living in any country. Let us examine briefly the situation in southeast Asia with respect to these four important ingredients of production.

Men

Population is dense in southeast Asia and it is increasing at a rather rapid rate. If in addition to the countries listed above one includes China, Indo-China, and Malaya, the combined population exceeds one billion—roughly one-half of the world's population and only about one-tenth of the land area. Population per square mile ranges from a low of 71 in Burma to nearly 300 in India. It is 51 in the United States.

In terms of total numbers, there is an ample supply of labor; however, there are deficiencies in other respects. Most of the people, although

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* An address by Clay J. Anderson, who recently returned from Burma where he served a year as Advisor to the central bank.

possessing latent ability, are untrained and inexperienced in modern and improved techniques of production. Educational facilities, both general and technical, are inadequate. It has been estimated, for example, that four-fifths of the people of India can neither read nor write. The supply of unskilled labor is large but there are acute shortages at the skilled, professional, supervisory, and managerial levels.

Land and raw materials

Most of the people get their living from agriculture, forestry, and fishing. Southeast Asia is sometimes referred to as the rice bowl of the world, but other food grains and fibers are grown in substantial quantities. The quality of the land, as in almost any large area, varies widely. There are rich, level lowlands, rolling hills, and rugged mountains.

Even though these countries are primarily agricultural, many of them have substantial mineral resources. Petroleum, coal, iron, copper, manganese, tungsten, tin, chromite, bauxite, antimony, nickel, and mercury are found in the area. According to geological surveys, substantial deposits of some of these minerals exist, but at present some of these mineral resources are not being fully developed. It is not a lack of basic resources, however, that is mainly responsible for the relatively low productivity of the area.

The climate in most of the area is not conducive to energetic activity. It is hot during most of the year and the monsoon season lasts several months, bringing heavy rains and high humidity.

Capital

Resources cannot be fully utilized nor can labor be really productive unless laborers have adequate tools and equipment to work with. Capital in southeast Asia is scarce in the sense of modern tools, plant and equipment, and of a supply of savings. The shortage arises mainly from three things: (1) limited ability to save because of the very low level of income; (2) the custom and tradition of putting savings into gold and jewelry; and (3) inadequate financial institutions to mobilize savings and channel them into productive uses.

Management

Professional and administrative resources are slender and the spirit of enterprise is weak. The shortage of administrative and managerial talent is largely the result of decades of colonial rule in which many of the top positions, both public and private, were held largely by foreigners. It reflects also inadequate educational facilities and limited opportunities which naturally prevail in an underdeveloped country.

Low income

Productive resources in southeast Asia are unbalanced. Population is large in relation to developed natural resources, to capital goods in the form of tools and machinery, and to trained and experienced management. This type of "mix" among the essential factors of production can have only one result—low per capita income. The following table shows per capita income for selected countries in the Far East and in the West.

PER CAPITA INCOME —
SELECTED COUNTRIES, 1952*

India	$ 54	Italy	$ 277
Pakistan	67	United Kingdom	761
Burma	40	France	684
Ceylon	117	Switzerland	979
Thailand	79	Sweden	1,061
Japan	171	United States	1,858

* Includes all income earned, not just money income. Latest data available for India are for 1954; Pakistan, 1949; Thailand, 1950. Source: Derived from United Nations' data.

Per capita income is not an accurate measure of the real standard of living among countries, for reasons which need not be analyzed in detail here. To illustrate, the total value of clothing and shelter produced per capita to provide comfortable living would need to be considerably greater in colder climates than in the warm climates of southeast Asia. Neither is there any intention to suggest that successful living is to be measured solely in terms of material goods. It may well be, for example, that the people of southeast Asia prefer to place less emphasis on the material and more on the social and the spiritual aspects of life. Nevertheless, the data above do indicate the wide disparity which exists between per capita incomes in Western and the Asiatic countries. Our concern here is not primarily with the significance of this disparity with respect to relative standards of living but rather with why it exists.

The principal reasons for this disparity are not hard to determine. Per capita income is low because production per laborer is small. Productivity of labor is low for a number of reasons but the most important are the small amount of modern tools and equipment and the methods of production employed. Techniques of production are much simpler, cruder tools and machinery are used, and production is on a much smaller scale. Handicraftsmen and the small-scale cottage industry are typical of non-farm production—not the complicated machines, the assembly lines, and mass-production methods characteristic of the modern factory. The absence of modern and efficient tools, machinery, and equipment stems in large part from a lack of funds to buy them and an acute shortage of trained and experienced people who know how to use them. In short, the "economic mix" is one which inevitably results in low productivity per worker and low per capita income. The supply of labor is too large relative to the things which must be combined with it.

PLANS FOR THE FUTURE

Government leaders in the newly independent countries of southeast Asia have two important economic goals—to lift the standard of living of the people, and to bring most of the countries' economic activity under the control of nationals. Some of these countries have recently introduced planned development programs. Burma, for example, has an eight-year plan, and India a five-year plan—both designed to promote internal economic development. The primary objective of these programs is to increase the total amount of goods and services produced so that people will have more to consume.

Economic development, as envisioned in these programs, is not narrowly conceived. The programs do not call for transforming these countries from agricultural to industrial nations. The basic goal is balanced economic progress, embracing development in many different lines which play an essential part in the economic welfare of the people. The nature of the immediate objectives is indicated by a breakdown of the development expenditures planned by the government in the course of the program. Under India's five-year plan, for example, the percentage distribution of total public development expenditures planned for the period is as follows:

Agriculture and community development	17%
Irrigation and power	27
Transportation and communications	24
Industry	8
Social services	16
Miscellaneous (such as rehabilitation)	8

The development program in Burma is similar in scope. The objective of economic development is a general increase in production rather than development of one particular sector such as industry.

It is expected that one-half or more of the investment called for by the programs in India and Burma will be made by government. The emphasis on government investment reflects both expediency and political philosophy. Private domestic capital is not available in sufficient amounts in underdeveloped agricultural countries for large projects such as irrigation, power, transportation, and communications. Neither is there a sufficient number of skilled and experienced entrepreneurs who would be willing to undertake large projects on their own initiative.

A second objective in most of these countries is to bring economic activity and policies under the control of nationals. This objective is revealed in government pronouncements and policies. The need for foreign capital, technicians, and managers for domestic economic development is recognized. But foreign capital and management are sought only on certain conditions. One is that it will be advantageous to the country as well as to the foreign investor. Another is that nationals be trained as quickly as possible to replace foreign supervisors, managers, and other administrative personnel. One plan which is being explored to bring in foreign capital is the joint enterprise, i.e., a business owned jointly by foreign investors and the government.

FACTORS DETERMINING SUCCESS

There is no intention here of indulging in economic forecasting, but only to consider some of the important factors which will determine whether these programs can be carried out according to plan. The two most important problems involved are financing the programs without inflation, and the scarcity of experienced technical and managerial personnel.

Financing the programs

There are three important aspects to be considered in formulating plans for financing the development programs. One problem is to raise enough funds from domestic sources to pay for development expenditures made within the country. A second is to acquire enough foreign exchange to pay for purchases and other expenditures made abroad. Finally, programs should be financed in such a way that the heavy expenditures will not generate inflation; otherwise the objectives of the program will be largely defeated.

Domestic financing. The major part of the development expenditure planned under these programs will be made within the country. Although the ratio will vary among countries, it is estimated that from two-thirds to three-fourths of the total expenditure will be domestic instead of foreign, mostly for such things as labor, home-produced materials and supplies.

The two principal non-inflationary sources of funds for financing the domestic expenditures are: (a) an excess of government revenue from internal sources over non-development expenditures; and (b) private savings. The major domestic sources of government revenue are customs duties, excise taxes, taxes on income, and land revenue taxes. Customs duties are the primary source of domestic revenue in most of these countries. In 1952-1953, for example, customs supplied about one-half of total domestic revenue in Burma and nearly one-third in India. The income tax is much less important than in the United States. In some countries the government has established a monopoly on the export of certain products. In Burma, for example, the

net profit from government exports of rice has been a substantial source of revenue in recent years because of the sharp rise in the export price. Foreign exchange earnings accruing to the government add to the privately held money supply when used to meet domestic expenditures and tend to generate inflation unless matched by a corresponding increase in domestic production.

The supply of private savings available for development expenditures or any form of investment is quite limited. In the first place, the low level of income leaves only a small margin above that required for essential living expenses. Second, there is only a limited network of financial institutions to mobilize savings and channel them into investment—public and private. Insurance companies, savings banks, and building and loan associations are largely nonexistent. Commercial banks, in most countries, are concentrated in a few of the large trading centers, leaving most of the country without banking facilities. A large percentage of these banks are branches of foreign banks and engaged primarily in financing foreign trade. These "exchange" banks do little domestic financing. Inadequate commercial banking facilities deprive these countries of an important source of investment funds, namely, savings mobilized through deposits which in turn are channeled into productive uses through loans and investments. There are cooperative credit societies in many villages but they mobilize only a very small amount of local savings. The principal source of funds for agricultural purposes continues to be the personal money lender, who all too frequently charges extortionate rates.

Finally, the supply of savings going into investment is limited by the widespread habit of putting savings into gold and jewelry. This habit reflects in part the traditional desire for ornamentation. But it also reflects insecurity—if forced to flee on short notice, gold can be carried easily and can be converted into cash when needed. The habit of putting savings into a bank or good securities instead of in gold will develop only slowly, but the change would certainly be accelerated if more good sound financial institutions were readily accessible.

Foreign financing. In carrying out the development programs, substantial amounts of machinery and equipment will have to be purchased abroad. Home production facilities for such products are entirely inadequate to meet the needs of the program. It is estimated that from one-fourth to one-third of the development expenditure planned by Burma and India will have to be made abroad. Foreign expenditure, of course, must be paid for with foreign exchange, not domestic currency.

The foreign exchange required can be obtained from previously accumulated foreign balances—an excess of current foreign exchange receipts over payments, and foreign aid, loans, and investments. The balance-of-payments position of these countries is not stable because they export primarily raw materials and import mostly finished

ANNUAL REPORT

Additional copies of our Annual Report for 1953 are now available. The Report features an article on "Forty Years of the Federal Reserve Act," which traces changes in the act and the environment in which they were made. Also, the major changes are summarized in table form for the convenience of students and others interested in the history of the Federal Reserve System. The remainder of the Report is devoted to a review of monetary policy in 1953, a description of operations of this Bank during the year, and the usual statistical tables.

goods. In periods of rising prices, such as following the outbreak of hostilities in Korea, export prices tend to rise faster than import prices and the terms of trade move in their favor. In periods of falling prices, however, the terms of trade usually move against them with the result that export receipts drop much faster than import payments. The ability of these countries to effect a foreign exchange surplus will depend in part on the vagaries of international trade and price movements rather than on their own efforts. True, the quantity of exports is likely to rise as output expands under the impetus of the development program; but it is doubtful whether exports will rise more than enough to offset the increase in imports likely to result from the rise in personal incomes unless imports are restricted.

If net foreign exchange earnings prove to be inadequate, they can be supplemented to some extent with other sources of foreign funds such as foreign aid, loans, and investments. Some aid is already being received from the United States and the United Kingdom, through United Nations' programs, and under the Colombo Plan. Loans from the International Bank for Reconstruction and Development are another possible source. New private foreign investment in countries of southeast Asia is relatively small, but efforts to form joint enterprises with foreign concerns may provide some foreign capital as well as management.

Inflation. An important question is whether these programs can be carried out as planned without inflation. Basically, the problem is one of increasing the total output of goods and services sufficiently to match the rise in total expenditures, both public and private. The essential condition for avoiding inflation is that the planned increase in investment be made possible either by bringing new resources into use or by diverting sufficient resources from consumption. Although all available resources are not now being fully utilized, it is most unlikely that the planned increase in total expenditure can be met entirely by an increase in total output. It is true that an increase in expenditure may be a means of bringing idle plants and unemployed laborers into use, but it does not follow that an increase in expenditure will bring under-employed resources into use quickly enough to produce a corresponding rise in total output. The problem posed by the development programs is not primarily one of putting to work plant, equipment, and labor formerly in use but now idle; instead, it is one of providing the plant and equipment and training the laborers to use them efficiently.

From the standpoint of financing, the problem of avoiding inflation is primarily one of preventing the money supply and expenditure from rising more rapidly than the total output of goods and services can be increased. The primary threat of inflation arises from the indicated deficits in government receipts relative to expenditures within the country, including the planned development expenditures. Government can pay out more than it takes in from within the country only by: (a) drawing on an accumulated cash balance, (b) borrowing from the central or commercial banks, and (c) borrowing from non-bank sources. Each of these methods of financing, except the last, increases the privately held money supply, which tends to generate further expenditure. If the government draws checks on its accumulated deposit balance in meeting the deficit, idle deposits are transferred to private holders, resulting in a corresponding increase in the privately held money supply. If the government borrows from the banking system, new deposits are created which, via expenditures, are transferred to private holders. These methods of financing which result

in an increase in the spending power of the public will tend to generate inflation unless matched by a corresponding increase in the total output of goods and services, or by additional imports. It is important, therefore, that every effort be made to break bottlenecks and promote an increase in total production, and to allow an increase in imports to the extent foreign-exchange resources permit.

Once the rise in production begins to lag behind the increase in purchasing power, inflation can be prevented only by using non-inflationary methods of financing. This means that the gap between government receipts from domestic sources and expenditures within the country must be removed by either an increase in taxation, borrowing from non-bank sources, or both. In most of these countries, only small amounts probably can be borrowed from non-bank sources because people are not in the habit of buying securities. The primary source of non-inflationary financing therefore is likely to be an increase in tax revenue or a reduction in non-development expenditures.

Taxation relative to national income is generally low as compared to Western standards. For example, total tax revenue from domestic sources was approximately 10 per cent of the national income in Burma and about 7 per cent in India in 1950-1951.

It will not be easy to achieve an excess of domestic receipts over expenditures sufficient to pay for the development expenditures planned for government. The ability to increase receipts is hampered by the low level of income, relatively inefficient tax collection machinery, and the reluctance of new governments to impose a substantially heavier tax burden on their people. Neither will it be easy to cut non-development expenditures. Internal as well as external unrest result in large expenditures for defense. The "welfare state" philosophy emphasizes an increase in social services. These too cost money. Finally, an expanding economy will call for a growing volume of non-development expenditures also. Resolute action will be required to effect a surplus in the domestic budget large enough to finance a sufficient portion of government development expenditures to avoid inflation.

An expansion of commercial bank credit is not so serious an inflationary threat as in countries like the United States. As pointed out previously, commercial-bank credit is extended largely in financing foreign trade. It is unlikely to be an important source of funds for domestic financing unless steps should be taken to sell government securities to the commercial banks as a means of meeting a government deficit. In most of the countries of southeast Asia the fiscal policy of the government and a foreign balance-of-payments surplus or deficit are much more important sources of change in the privately held money supply than changes in commercial bank credit.

Trained personnel

One of the most serious obstacles to carrying out the development programs according to plan is the acute shortage of trained and experienced personnel at the supervisory, administrative, and managerial levels. The shortage of such personnel handicaps economic development in both the private and governmental spheres.

The shortage of top personnel is recognized and steps are being taken to solve the problem. Foreigners with training and experience are being brought in under programs such as that of the United Nations, the Foreign Operations Administration of the United States, and the Colombo Plan. Foreign experts are frequently employed directly by the government to help in planning and supervising economic development projects.

In addition, missions are sent abroad to study foreign methods and techniques. These missions usually include people in positions of authority who, when they return, can introduce improved methods. Also, a number of state scholarships are awarded each year to enable promising students to study abroad. These methods of trying to meet the shortage of professional and administrative personnel are helpful, but it will take a long time to fill the gap in this way.

Other considerations

Private initiative and the spirit of enterprise are not strong. Economic motives, in general, are weaker than in Western countries. This situation reflects, in part, long periods of colonial rule in which nationals were largely deprived of the opportunity of rising to the top positions. All too frequently the door of opportunity was not open wide enough to elicit the aspiration to work up to professional and managerial positions. Economic motives are weak also because of the relatively low value placed on material things. For most of these people, material achievement is not placed so high on their ladder of success; in fact it is frequently considered incompatible with spiritual ideals.

A basic issue which will influence the rate of economic progress in southeast Asia is what kind of life the mass of the people want to live—whether they want the simpler, easier life which contentment with fewer material goods makes possible or the more rigorous, disciplined life which modern, large-scale methods of production demand. The issue is not which way of life is better or which leads to greater happiness. The point is that a higher standard of living in terms of material goods can be achieved only by following a way of life which will produce it.

CONCLUSIONS

There is a strong move on the part of the leaders of the newly independent countries of southeast Asia to lift substantially the standard of living of their people. This means not only that the total output of goods and services must be increased; it must be increased considerably faster than the growth of population.

The goal can be achieved if the present unbalance among the basic resources of production can be removed. First, a steadily growing volume of saving, both public and private, will be needed to supply the much larger quantity of modern tools, machinery, and equipment required for a substantial increase in labor productivity. This will require a strong incentive to save, the channeling of savings into productive uses, and the establishment of a more widespread network of financial institutions which will mobilize private savings and channel them into productive uses.

Second, there is a great need for a larger number of technicians, experienced managers, and administrators to introduce more efficient methods of production. These people can be supplied only by improved educational facilities, by sending people abroad for training, by bringing in foreign experts, and by experience.

Finally, economic development will be speeded if the masses become imbued with a keen desire for economic progress. To lift per capita income and the standard of living substantially will require persistent and sustained efforts to create the conditions which make possible continued economic progress.

A NOTE ON CONSUMER SPENDING ON SERVICES

The most widely used tool for analyzing and predicting business developments is gross national product and its components. But the results of analysis depend on the nature of this tool. It is important to understand, therefore, how G.N.P. is constructed. These notes give an example of how a technical detail of national income accounting can affect appraisals of the business situation.

In the first quarter of this year the nation's total output of goods and services—its gross national product—was about 3 per cent below the all-time peak attained in the second quarter of 1953. Within this over-all total, investment spending was down 19 per cent, and spending on goods and services by the Federal Government and state and local governments was about 3 per cent below the level attained nine months earlier. But total consumer spending was at about the same rate as in the months of April, May, and June of 1953.

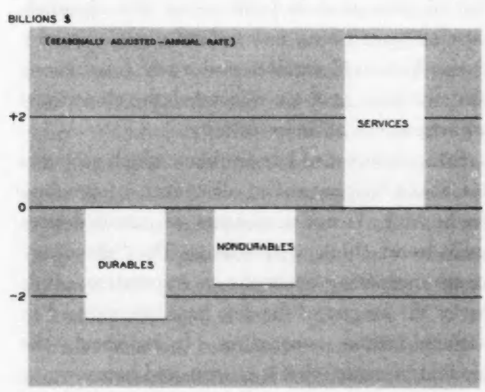
Taken at face value, the above seems to suggest that consumer spending, which takes nearly two-thirds of total output, has neither contributed to nor reflected the current slide in business activity. This apparent firmness in consumer buying is one reason given frequently for optimistic appraisals of future trends. Contained within this appearance of stability in consumer spending, however, significant changes have occurred. The changes have had important effects on total production and employment.

Goods down, services up

The following chart shows a shift within the area of consumer spending. People are spending less on goods, especially durable or hard goods, and more money on services. From the second quarter of 1953 to the first part of this year, consumers spent 8 per cent less on durable goods such as automobiles, television sets, refrigerators, and washing machines. They spent 1 per cent less on nondurables, chiefly food and clothing. But they spent enough more for services such as rent, transportation, electricity, medical care, and the like, to offset the drop in the other categories.

Normally, with total spending about unchanged, one might expect this shift in the pattern of demand to call for compensating changes within the economy—such as reapportionment of labor and other resources from the declining durables sector into the growing service enterprises. This sort of shifting occurs constantly in a dynamic economy and is frequently labeled a "rolling adjustment."

CHANGE IN CONSUMER EXPENDITURES FROM 2nd QUARTER 1953 TO 1st QUARTER 1954



The following figures show that in the current situation this sort of shift has not taken place. Employment in the service industries, in the first quarter of 1954, was about the same as in the second quarter of 1953 despite the increased amounts spent on services. One reason for this has to do with the particular services on which individuals have increased spending.

NON-AGRICULTURAL EMPLOYMENT
(In millions)

	2nd quarter 1953	1st quarter 1954*
Manufacturing	17.1	16.1
Services	5.3	5.2
Other	26.7	26.2
Total	49.1	47.5

* Estimated.

Spending on rent and estimated rent is higher

Although detailed figures for the first quarter of 1954 are not available, it is estimated that at least half of the gain that has taken place over the past nine months in consumer spending on services has come as a result of increased spending on housing. By far the largest component within this area is estimated rents of home owners. An understanding of just what is involved in this spending estimate goes a long way toward explaining why the shift toward services and away from goods has not prevented or alleviated the downward adjustment in business activity.

Estimated rent of homeowners, which accounts for about 60 per cent of all consumer spending on housing, is not a measure of actual dollars spent as we think of spending. The "spending" is an accounting concept—an imputation. It is easily the largest of the few imputations used in national-income accounting. It represents the amount of money that it is estimated homeowners would have to pay in order to rent the dwellings in which they live. A homeowner is considered to be in the business of producing housing services. As such, he sells himself, as a tenant, the annual services of the house. (Purchase of a house by a homeowner is counted as an investment expenditure and does not get into the consumer spending figures.) The estimate is made to provide comparable treatment between rented and owner-occupied housing. The imputed total becomes a part of consumer expenditures, and the rent—net of the expenses of the homeowners—becomes a part of rental income of persons.

Most of the rest of consumer spending on housing is actual payments of rent by tenants of nonfarm dwellings. These payments have been on the uptrend—for one reason because the cost of renting has been rising. The chart, showing consumer prices, illustrates the rise in the price

WHAT ARE SERVICES?

A "feel" for the type of item included in the service classification of consumer spending is provided by the following list of typical services:

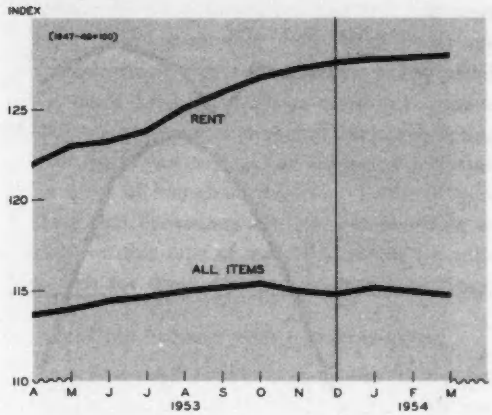
1. All types of repairs
2. Beauty and barber-shop treatment
3. Rents of all kinds
4. Gas, electric, and water
5. Telephone
6. Cleaning and laundering
7. Domestic help
8. Medical and dental expenses
9. Purchased transportation
10. Admissions
11. Education
12. Contributions

In addition, there are one or two characteristics common to just about all service items. First, there are no intermediary enterprises between the producer and the consumer. Second, to a large degree, services are by nature items purchased only by persons.

of rents over the past year. Since the imputed rent of homeowners is based on what is actually paid to rent comparable housing, the chart showing the rise in rent costs has added significance. It means that rental values used to derive imputed rent of homeowners have been rising. This pretty much explains the rise in consumer spending on housing, which in turn accounts for at least half the gain in service expenditures over the past nine months.

Obviously more spending on rents (actual and imputed) which has come about as a result of increased rent costs, is not likely to bring about significant gains in employment and production. This, at least in part, explains why the increased consumer spending on services has had a much smaller effect on employment and production than the equal decrease in purchases of goods.

CONSUMER PRICE INDEX
Dollar payments for rent



CURRENT TRENDS

Predictions that business will turn upward before the year is out still persist. There is abundant evidence that business sentiment is generally buoyant. The fact that businessmen recognize that declines thus far have been fairly moderate, together with their general confidence in the economy's long-run growth trend, seems to contribute to a feeling that "we're due to come out of this thing soon."

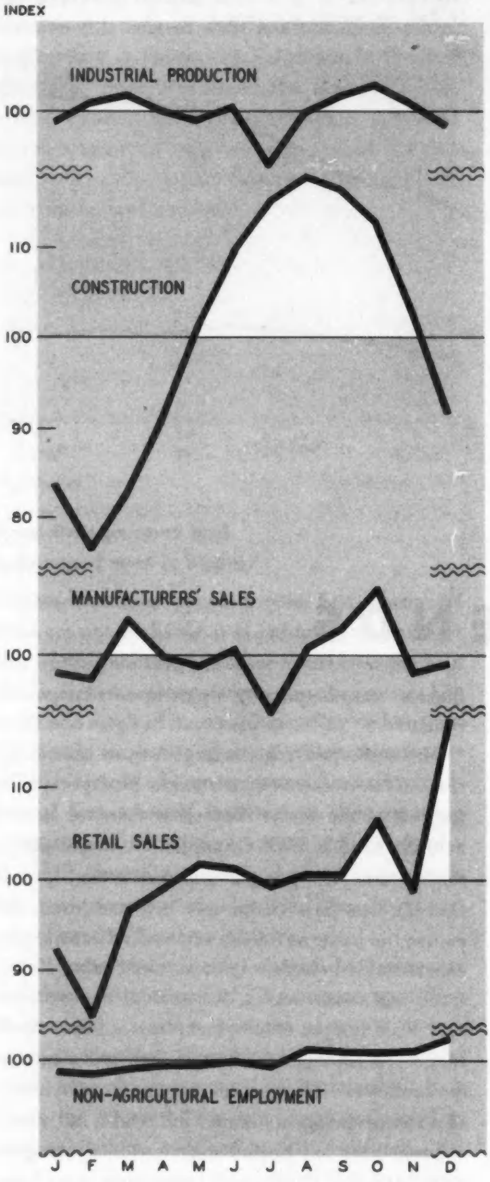
Seasonal fluctuations

Another reason for prevalent optimism may be an expectation of a seasonal spurt in the fall. Of course business analysts and businessmen try to make allowances for seasonal forces as they look ahead. And statisticians have developed seasonal factors to adjust their series. Still, seasonal influences may be playing a part in current predictions.

The accompanying charts give some idea of the seasonal movements which might be expected for the rest of the year. They show seasonal factors actually used in 1953 to adjust five major statistical series. The general impression they give is that the best part of the year is ahead of us. Of course the patterns for the various indicators vary considerably in both magnitude and timing. Retail trade and construction, for example, move over very wide ranges, employment over a fairly small range. In timing, too, no two indicators behave the same way. The general picture, though, is one of a rising spring, a summer lull, and a fall spurt.

From here on, businessmen are likely to give more attention to seasonal forces than they have

SEASONAL MOVEMENTS OF FIVE INDICATORS



for a long time. For several years, seasonal movements were lost in the rapid upward trend. The adjustment of the economy to more "normal" conditions involves not only an adjustment to lower levels but also the return of more ups and downs, including seasonal. This does not necessarily mean a return of the old pre-war seasonal patterns; statisticians and businessmen both know that the nature of seasonal movements may change considerably. It does suggest that the businessman will find it harder to plan ahead and the business analyst will find it harder to predict the future.

Seasonals in retail trade

One area of business in which seasonal forces are particularly significant is retail sales. The fact is, one seldom reads or hears comments on sales by months except on a seasonally adjusted basis. We have just passed through a period when seasonality is of the utmost importance in appraising trends in the traditionally important spring buying season. Looking back over the past few weeks, it appears that Easter business was not spectacular, but neither was it very disappointing.

Department store business has steadied

Seasonally adjusted sales by department stores in this Federal Reserve District have continued above the lowest level reached last September. Although declines from a year ago have widened somewhat, it should be remembered that comparisons are with a period of rising sales in the early months of 1953. Recent sales trends in some of the more important city areas of this District have varied. Philadelphia stores have experienced a little more of a rising tendency than some of the others. In Lancaster and Reading the low points in sales occurred in February, followed by improvement in March. Sales in the York area have shown little recovery thus far. In Wilkes-Barre, a downtrend

is still evident, reflecting depressed conditions in the anthracite industry, so important in the economy of that area.

Main-store volume is holding up better

For some months now, main-store volume has been well ahead of sales in basement departments. This suggests that while consumers are shopping for bargains, they are looking for them in quality merchandise. Buying interest appears about equally divided between soft goods and durables, but there are some exceptions. Demand for piece goods and household textiles, for example, has been rather low since the turn of the year. On a seasonally adjusted basis, women's apparel and accessory lines have shown considerable fluctuation. So has men's-wear business, which was up sharply over the year-end but subsequently fell off in the late winter. Sales in some of the home furnishings departments—notably furniture and floor coverings—suggest a revival of buying interest lately. Appliance business has been off since last summer. Radio and television sales, after a spurt at Christmas time, declined rather sharply and in recent months they have been below their year-ago levels.

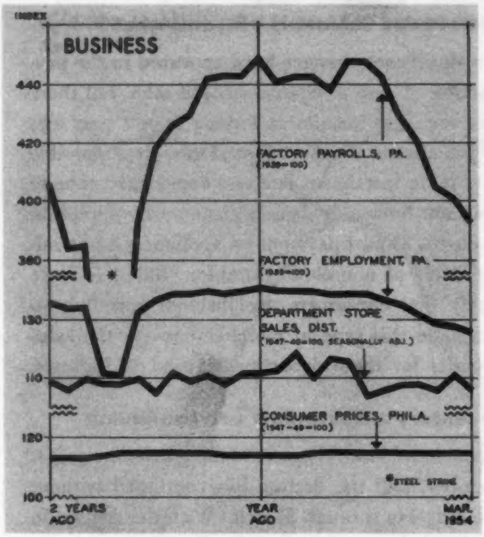
Instalment volume is off somewhat

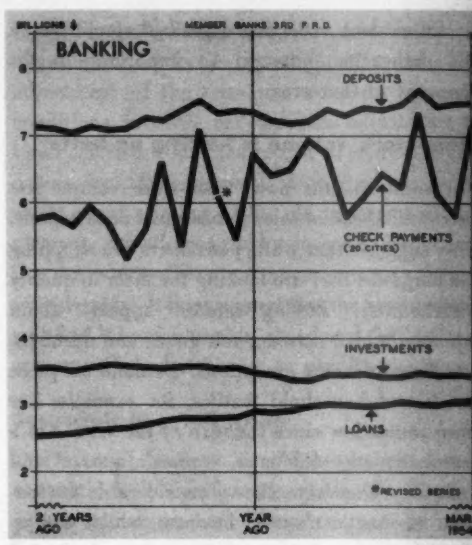
No significant changes have appeared in the proportion of cash to charge-account sales, but there has been less instalment buying than a year ago at the District's department stores. It is possible that more instalment business could have gone to discount houses or dealers customarily accepting trade-ins as part payment on appliances and similar items of household durables. But it is more likely that consumers are just not spending so much on this type of merchandise—as the sales records for these departments seem to indicate.

Inventory adjustments are continuing

Department stores began reducing inventories last October, and the decline has continued without interruption through March. With the decline in sales volume late last summer, inventories quickly became out of line. The spread was widest when sales reached their lowest point last September. Stock-sales ratios through the first quarter of this year still were higher than in the corresponding periods of either last year or 1952. They were highest in main-store departments, the area where sales volume has shown the greatest stability in recent months.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District, Per cent change: March 1954 from mo. ago	March 1954 from year ago	3 mos. 1954 from year ago	United States, Per cent change: March 1954 from mo. ago	March 1954 from year ago	3 mos. 1954 from year ago
OUTPUT						
Manufacturing production	− 2*	−15*	−13*	− 1	− 9	− 8
Construction contracts‡	+21	+41	+ 5	+15	+ 9	+ 8
Coal mining	−17	−24	−16	−10	−18	−13
EMPLOYMENT AND INCOME						
Factory employment	− 1*	−11*	− 9*	− 1	− 9	− 8
Factory wage income	− 2*	−12*	−10*	....	....	....
TRADE**						
Department store sales	− 5	− 6	− 6	− 4	− 9	− 7
Department store stocks	− 2	− 1	....	+ 2	− 1	....
BANKING (All member banks)						
Deposits	0	+ 2	+ 2	− 1	+ 3	+ 3
Loans	0	+ 5	+ 7	0	+ 2	+ 3
Investments	− 1	− 2	− 2	− 3	+ 1	+ 2
U. S. Govt. securities	− 1	− 2	− 3	− 4	0	+ 1
Other	0	+ 1	0	+ 1	+ 5	+ 4
Check payments	+23§	+ 6§	+ 4§	+21	+12	+ 9
PRICES						
Wholesale	....	....	....	0	+ 1	+ 1
Consumer	0†	+ 1†	+ 1†	0	+ 1	+ 1

*Pennsylvania †Philadelphia §20 Cities
**Adjusted for seasonal variation. ‡Based on 3-month moving averages.

LOCAL CHANGES	Factory*: Employment, Per cent change March 1954 from mo. ago	Employment, year ago	Payrolls, mo. ago	Payrolls, year ago	Department Store: Sales, Per cent change March 1954 from mo. ago	Sales, year ago	Stocks, mo. ago	Stocks, year ago	Check Payments, Per cent change March 1954 from mo. ago	Check Payments, year ago
Allentown	−1	− 9	−1	−12	....	....	....	....	+25	+ 8
Harrisburg	−2	−11	−4	−17	...	....	....	....	+23	+ 1
Lancaster	0	− 1	−1	− 1	+24	−16	+ 4	+ 3	+14	+ 7
Philadelphia	−1	− 7	−1	− 7	+ 8	−10	+ 5	0	+24	+ 6
Reading	−3	−10	−2	−15	+10	−16	+15	− 4	+21	+ 8
Scranton	+2	− 2	0	− 3	....	....	....	....	+16	− 4
Trenton	−2	−14	0	−18	+ 7	−22	+11	−20	+29	+26
Wilkes-Barre	0	− 5	+1	− 4	+ 8	−21	+ 9	− 8	+22	+10
Wilmington	0	− 6	−1	− 7	+19	− 2	+ 6	− 2	+24	+ 5
York	−1	− 2	−2	− 3	+ 9	−16	+15	− 8	+18	+ 5

*Not restricted to corporate limits of cities but covers areas of one or more counties.